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UNCLAS SECTION 01 OF 02 PORT AU PRINCE 001345

SENSITIVE
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STATE FOR WHA/EX, WHA/CAR VDEPIRRO, S/ES-O/CMS, S/CRS,
INR/IAA
STATE PASS USAID FOR LAC/CAR, OFDA
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TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A
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SUBJECT: HAITI'S ECONOMY HIT HARD BY HURRICANES

REF: PORT AU PRINCE 1314

11. (U) This message is sensitive but unclassified. Please handle accordingly.

SUMMARY

12. (SBU) The hurricanes that struck Haiti beginning in August have battered the country's economy. The storm damage has reduced projected growth and increased anticipated inflation. The sectors suffering the greatest damage are transportation and education infrastructure, and agriculture. End Summary.

GROWTH REDUCED

13. (SBU) Preliminary International Monetary Fund (IMF) projected current FY 2007-2008 gross domestic product (GDP) growth rates are between 1.5 percent and 2.0 percent. This rate is down from estimates of 3.5 percent made at the beginning of the fiscal year, and lower than downward revisions (2.5 percent) made subsequent to the April food riots. Ministry of Economy and Finance (MOEF) Department of Economic Studies Deputy Director Marie-France Laleau told econoff privately that MOEF economists believe growth may fall to below 1.5 percent.

14. (SBU) The economic impact of the hurricanes will extend well into the new fiscal year, which begins October 1 (Note: Haiti's fiscal year runs October 1 - September 30. End note.) IMF notes that FY 2008-2009 growth rates will be largely determined by the pace of recovery in agriculture and infrastructure -- the sectors hardest hit by the floods.

INFLATION HIGHER, INCREASED GOVERNMENT DEBT

15. (SBU) Year-on-year inflation was 18.8 percent in August, according to the Haitian Institute of Statistics and Information (IHSI). Haiti's Central Bank and MOEF representatives hesitate to project precise forward inflation estimates, but nevertheless believe that inflation is likely to increase to a minimum of 20 percent. The IMF also believes that inflation is likely to reach 20 percent, due in part to increases in the quantity of imported food. Increased imports would put additional pressure on the GOH's limited reserves.

16. (SBU) The IMF notes that the GOH has already borrowed USD 20 million from the Central Bank to prepare for the opening

of school. Central Bank rep notes that September inflation is typically higher than other months due to rising expenditures by the public related to school costs (e.g., clothing, transport, educational fees, and food). According to the Minister of Finance, school fees are up approximately 10 percent this year.

¶7. (SBU) Growth in private sector credit has slowed in the past few months, from USD 5 million (200 million Haitian gourdes/HTG) loans extended in June, compared to USD 2 million (80 million HTG) by mid-September. Central Bank representatives predict lending rates will continue to be restrictive in the short-term. Ministry of Economy and Finance officials told Emboffs they anticipate a rise in Haiti's current budget deficit for FY 2008 to USD 130 million.

AGRICULTURE

¶8. (SBU) Although compilation of a national damage estimate has barely begun, it is already clear that flooding has inflicted enormous damage to Haiti's agricultural sector and further jeopardized Haiti's food security (reftel). The agricultural sector accounts for approximately 27 percent of Haiti's GDP. Destruction of transportation infrastructure (bridges, roads, culverts) was compounded by damage to croplands and livestock. All these factors will help to boost food inflation -- which has been a political factor in Haiti since late 2007. New Minister of Agriculture Joanas Gue the week of September 15 announced an upwardly-revised estimate of losses to Haiti's agricultural sector of USD 190

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million. Losses to this strategically important sector will further harm Haiti's economy and overall food security. Much livestock and most seed in the current planting season have been lost, which will bring further increases in food imports and likely push inflation further upward.

INFRASTRUCTURE - TRANSPORTATION

¶9. (SBU) Ministry of Public Works and Transportation (TPTC) officials on September 16 presented a list of forty-seven priority transportation infrastructure projects across the country that need immediate attention after the hurricanes. The TPTC report estimates these projects' cost at USD 90 million. The report noted that the damage to bridges and roads exceeds the damage sustained from Hurricane Jeanne in ¶2004. The World Bank with other donors will conduct a broader infrastructure assessment in October. It is expected that figures derived from the World Bank-led assessment will be substantially higher than TPTC estimates of damage to the transportation sector -- going into hundreds of millions of USD.

INFRASTRUCTURE - EDUCATION

¶10. (SBU) Ministry of Education representatives reported September 18 that approximately 600 schools were destroyed during recent floods and that an additional 600 schools will require repair. The Artibonite Department suffered the greatest losses (176 schools destroyed), followed by the Nippes Department (110 schools destroyed), and the Western Department that includes Port au Prince (84 schools destroyed). Unofficial estimates from the Ministry of Education note that approximately USD 98 million (3.92 billion Haitian gourdes/HTG) will be required to repair these educational facilities. In addition, the Bureau of Civil Protection (DPC) reports many schools are currently being used as shelters for persons made homeless by the hurricanes. The damage to education infrastructure was the major reason the Ministry of Education pushed back the opening of the school year to October 6. Few of the damaged schools will be

repaired or operational by that date.
SANDERSON